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C O N F I D E N T I A L SECTION 01 OF 02 ANKARA 001936

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TAGS: [ENRG](#) [EPET](#) [TU](#)
SUBJECT: GOT AND PIEBALGS AGREE ON CASPIAN DEVELOPMENT
COMPANY

REF: A. ANKARA 1901
[1](#)B. ANKARA 1818

Classified By: Economic Counselor Dale Eppler for reasons 1.4 (B) and (D)

[1](#)1. (C) Summary. Ankara EU Commission Economic Counselor Ulrike Hauer described EU Commissioner Andris Piebalgs' November 6 visit to Ankara as very successful. Piebalgs met with President Gul, Prime Minister Erdogan, Treasury Minister Simsek and Energy Undersecretary Cimen. Gul told Piebalgs he would like to convene a meeting of Turkmen, Azeri and Turkey leaders in the near future. The GOT accepted Piebalgs, offer to form a Caspian Development Company (CDC) in which gas consumers would join to negotiate jointly to buy large gas volumes. Piebalgs said the Commission needs to study how to square the CDC with EU competition and energy market rules, and proposed Turkey ask the World Bank (WB) to do a formal study of the concept. The GOT wants to study the terms of reference for the study before giving an official answer. According to Hauer, the EU Commission's support of the CDC concept was enough to get the GOT to drop its long-standing request to keep 15% of gas transiting Turkey for the domestic market. This compromise could clear the way for the signing of an Intergovernmental Agreement for Nabucco early next year. End summary.

[1](#)2. (C) The EU Commission has written the terms of reference for a study on the conceptual design of a Caspian Development Company (CDC) including its structure, financing and operation (ref a). One of the advantages of the CDC concept is its ability to negotiate with the government of Turkmenistan regarding large, bulk purchases of gas. Turkey believes this negotiating power will help it get a better price from the Turkmen. According to Hauer, the World Bank has agreed to do the study but it must be commissioned by a World Bank member country and therefore the EU Commission has suggested Turkey ask for the study. The study will likely be carried out by a combination of World Bank staff and contractors with the assistance of the European Investment Bank and the EU Commission. The study will take about a year to complete and EU is targeting the end of 2009 for completion.

[1](#)3. (C) President Gul and Prime Minister Erdogan supported the CDC concept as a way to bring gas to Turkey and Europe but were noncommittal about whether they would ask the WB to

do the study. The CDC concept is a way for Europe to combine its gas needs with Turkey's, answering a complaint we often hear from the Turks (ref b). Hauer said the political goal of the CDC concept is to get Turkey to drop its demand for 15% of gas transiting Turkey. Piebalgs believes he has achieved this agreement with the GOT, according to Hauer.

¶4. (C) President Gul asked Piebalgs to attend the Baku Summit, Nov 13-14 and Piebalgs responded positively. Gul also told Piebalgs that he wanted to bring together the leaders of Azerbaijan, Turkmenistan and Turkey for a summit in the near future. No further information was given.

¶5. (C) MFA Deputy Undersecretary Selim Kuneralp told us the GOT just received the terms of reference for the study a few days ago and is still studying them. The GOT is not convinced that the WB is best placed to understand EU rules and regulations. They are also concerned about the length of time it will take to complete. MFA Energy Department Head Berris Ekinici told us that her understanding is that some form of a CDC consortium could be formed and start negotiating with Turkmenistan, even before the study is complete. But Hauer told us that the Commission cannot go forward until the results of the study are known. The EU must be sure that the idea of aggregating demand and forming a major consortium doesn't conflict with EU laws and regulations, noting a prior problem with a joint development corporation for North Sea oil that ran afoul of competition rules. In addition, the Commission expects to use the results of the study to sell the idea to private sector companies.

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¶6. (C) There are a number of details on the CDC that will need to be ironed out. The Commission expects that CDC will be an entity composed entirely of private sector companies, rather than countries. However, Kuneralp indicated that the GOT is assuming the CDC will be composed of both companies and countries. Another key unanswered issue is whether the CDC will negotiate only on volume or also on price. Hauer indicated that in the Commission's view, this would depend on the legal limitations disclosed in the study.

¶7. (C) Comment: To the extent the CDC concept gets the GOT to abandon the moribund formula of keeping 15% of transit gas, this is good news for Nabucco. This provision has stalled negotiations of Nabucco's Intergovernmental and Host Country Agreements for months. One of the reasons the GOT may find the concept appealing is if the CDC has the ability to negotiate gas prices for all consortium members, including Turkey. Previously GOT officials who have negotiated higher gas price imports have found themselves in jail for "acting against the interests of the state."

¶8. (C) Comment continued: The Commission and the GOT do not appear to have a clear, shared understanding of the CDC concept or on next steps. There is a chance that agreement between the parties could unravel once Turkey understands that the EU doesn't plan to take any action until the results of the CDC study are known, or if it finds the results of the study too restrictive.

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